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Problems and Opinions

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Macroeconomic Challenges and Forecasts for Poland (Expert Opinion of the European Financial Congress)

Abstract

Rapid economic developments combined with the considerable volatility of financial markets and the growing importance of non-quantifiable behavioural factors all suggest that expert knowledge should be leveraged to a greater extent in macroeconomic forecasts.

The purpose of this article is to present the results of the second edition of the "Macroeconomic Challenges and Forecasts for Poland" project. The survey was conducted in December 2018. The article presents a consensus forecast by EFC experts. In addition to traditional macroeconomic forecasts for Poland, it also lists threats to sustainable economic development and financial system stability together with subjective estimates of their probabilities. Using the knowledge and competence of EFC experts, recommendations concerning economic policy measures have been formulated with the aim of mitigating the future impact of the threats identified.

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Key words: Macroeconomic challenges, macroeconomic forecasts, financial stability

JEL: G17, G18, E17, E20

Makroekonomiczne wyzwania i prognozy dla Polski (ekspertyza Europejskiego Kongresu Finansowego)

Streszczenie

Szybkie tempo zmiany zjawisk gospodarczych połączonych z dużą zmiennością rynków finansowych oraz wzrostem znaczenia niewymiernych czynników behawioralnych, skłania do szerszego wykorzystania wiedzy eksperckiej w prognozowaniu makroekonomicznym.

Celem artykułu jest przedstawienie wyników II edycji projektu pt. Makroekonomiczne wyzwania i prognozy dla Polski. Badanie zostało przeprowadzone w grudniu 2018 roku. W artykule zaprezentowany został konsensus prognostyczny ekspertów EKF. Obok klasycznych prognoz makroekonomicznych dla Polski zawiera zagrożenia dla zrównoważonego rozwoju gospodarczego oraz stabilności systemu finansowego wraz z szacunkami subiektywnego prawdopodobieństwa realizacji. Wykorzystując wiedzę i kompetencje ekspertów EKF sformułowane zostały rekomendowane działania dla polityki gospodarczej, ukierunkowane na osłabienie oddziaływania zidentyfikowanych zagrożeń w przyszłości.

Słowa kluczowe: makroekonomiczne prognozy, makroekonomiczne wyzwania, stabilność finansowa

Introduction

Rapid economic developments, the considerable volatility of financial markets and the growing importance of non-quantifiable behavioural factors all suggest that expert knowledge should be leveraged to a greater extent in macroeconomic forecasts. In preparation for the European Financial Congress (EFC) 2018, we put forward an idea for consensus macroeconomic forecasts which would combine traditional point forecasts with a subjective assessment of the probability of threats to sustainable economic growth and financial stability.

The purpose of this article is to present the results of the second edition of the "Macroeconomic Challenges and Forecasts for Poland" project. The survey was conducted in December 2018. Responses to questions concerning point macroeconomic forecasts were received from 13 economists, while 29 experts shared their expectations concerning the assessment of threats to the business climate and the stability of the financial system in Poland until 2021.

This article consists of three chapters. In the first chapter, methodological notes are presented alongside an evaluation of the accuracy of the macroeconomic forecasts prepared by various institutions in Poland and abroad. The second chapter contains synthetic (aggregated) results of expert studies concerning macroeconomic policy and financial system stability. The final chapter of the article discusses the EFC experts' recommendations concerning economic policy measures.

1. Macroeconomic forecasts – methodological notes

Macroeconomic forecasts are an important basis for planning the activities of both the state and businesses. However, their validity and utility are often questioned, since analysts are often overconfident, fail to see risks of extreme scenarios and attach too much importance to quantitative models, while globalisation processes amplify the role of behavioural factors (Morawski 2015). That is why there is a need for predictions of social and economic future which are slightly different from the traditional point macroeconomic forecasts. In our opinion such predictions supplement the macroeconomic forecasts presented by numerous forecasters.

Currently, macroeconomic forecasts for the Polish economy are prepared by institutional, commercial and independent forecasting centres.[1] Institutional centres include domestic state institutions (in particular ministries, government agencies and the National Bank of Poland) as well as centres run by international organisations (in particular the European Commission, the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and the OECD).

Commercial forecasting centres are organisational units of, for instance, banks, insurance companies and investment funds. Their forecasts are related to the business activity of those undertakings and often provide the basis for operational and strategic decisions.

Independent centres include mostly scientific foundations, research institutes, think tanks, academic centres and institutions established by the media.

These three groups may overlap to a certain extent, but this division is nevertheless important from the point of view of the accuracy of forecasts.

According to the public opinion, the most authoritative forecast to which the greatest importance is attached is the government's GDP forecast, which is prepared for budget planning purposes.[2] Forecasts by other domestic institutional centres do not deviate significantly from the government's forecast, which is inherently conservative, meaning that it "indicates economic growth below the economy's real potential. This is due to the obvious need to avoid risks in managing public finances (Wyżnikiewicz 2013, p. 209)."

The huge importance of the government's forecast results from its official nature, but it errs on the side of excessive pessimism, which is often due to legitimate concerns about the state of public finances. Owing to its central character, the official government forecast has a strong impact on the forecasts issued by international organisations, which additionally err on the side of pessimism as a result of their less thorough knowledge of the mechanisms governing the domestic economy

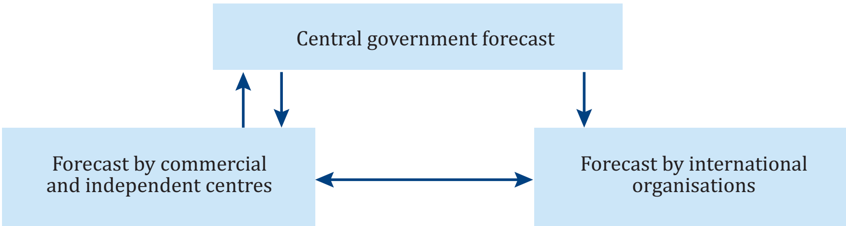
1 More on this subject in Wyżnikiewicz 2013.

2 The government's macroeconomic forecast for 2019 is included in the document entitled *Założenia projektu budżetu państwa na rok 2019*, Ministerstwo Finansów, Warszawa, June 2018.

as well as certain negative stereotypes about Poland and the entire Central and Eastern European region.

On the other hand, the central government forecast influences the forecasts of commercial and independent centres to a much lesser extent. Mutual interactions between the macroeconomic forecasts prepared by various centres are illustrated by Figure 1.

Figure 1. Mutual interactions between forecasts by groups of centres



Source: Wyżnikiewicz 2013.

B. Wyżnikiewicz's research demonstrates that the accuracy of both government forecasts and forecasts by international organisations is lower than that of forecasts by commercial and independent centres, and that this is not a random phenomenon but rather results from systemic factors.

However, forecasts by individual commercial and independent centres are of less importance for the target audience than institutional forecasts, which is a consequence, *inter alia*, of their unofficial character and also of the large number of these centres and their forecasts. The increase in the importance of forecasts by commercial and independent centres has been the result of the emergence of consensus forecasts, which are usually the arithmetic average or median of multiple forecasts. The most commonly known among them is the so-called London Consensus, which contains the averaged forecasts prepared for Poland by around 20 commercial and independent centres.

In Poland, an interesting attempt to prepare consensus forecasts has been made by the National Bank of Poland (NBP), which publishes quarterly macroeconomic forecasts on the basis of a questionnaire completed by 20 experts who represent financial institutions, analytical and research centres and employers' organisations.[3] The NBP survey also includes probabilistic questions, which are based on subjective assessments of the forecasts' probability.

Subjective probability distributions appear particularly important where attempts are made to leverage the experts' knowledge in complex situations (Kowalczyk

[3] https://www.nbp.pl/home.aspx?f=/statystyka/amakro/amakro.htm

2010, p. 101–122). This is because subjective probability assessments make it possible for experts to express their uncertainty and account for it in particular when forecasting complex phenomena, e.g. the risks associated with various macroeconomic scenarios unfolding.

Summing up, as concerns the accuracy of macroeconomic forecasts for Poland, the following factors appear relevant:

1) Forecasts by domestic centres are more accurate than those by foreign centres;
2) Forecasts by commercial and independent centres are more accurate than central government forecasts;
3) The growing importance of behavioural factors, which are difficult to measure suggests that expert knowledge should be used to a greater extent and not just to formulate point forecasts. In these circumstances, subjective probability distributions of the forecasts formulated could be useful.

2. Macroeconomic forecasts and challenges according to EFC experts

In this article, we present mid-term macroeconomic expert opinions and forecasts for Poland for the second time. Their authors are domestic EFC experts who are outstanding macroeconomists, mainly from major banks, supervisory and regulatory bodies and renowned consulting companies as well as from the academic community. They share their knowledge, experience and calculations *pro bono publico*, while expressing only their own views rather than those of the institutions for which they work. This is a consensus forecast, taking into account subjective probability distributions for the purpose of forecasting threats to the business climate in a three-year perspective and also for the purpose of forecasting threats to the stability of the financial system.

In addition to traditional macroeconomic forecasts, our survey also pays great attention to qualitative and behavioural factors. In formulating the EFC's macroeconomic forecasts as well as in developing the Polish experts' positions on various concepts for building the new financial system architecture of the European Union, we use the modified two-stage Delphi method as well as the traditional consensus forecast.[4]

The invited experts present their forecasts (if any) for the current year and the next three years, and also list the following within this horizon:

- the greatest threats to the business climate in Poland,
- the greatest threats to the stability of the Polish financial system,
- three proposals (recommendations) for domestic economic policy.

[4] See more on this subject: https://www.efcongress.com/pl/stanowiska

We group the opinions on macroeconomic challenges into homogeneous classes and subsequently prioritise them, taking into account the importance of the homogeneous groups of factors identified and the probabilities of their occurrence. Similarly, we prioritise threats to the stability (security) of the Polish financial system.

The economic policy measures recommended for Poland are presented in a synthetic form by grouping them into homogeneous classes and weighting them in accordance with the number of experts who suggest similar changes and measures.

2.1. Forecast results

Forecasts by EFC experts suggest that economic growth is expected to slow down in the coming years.[5] Poland's GDP growth rate is expected to decrease from around 5% this year to below 3% in 2021, which means a growth path lower than that indicated in the government's Convergence Programme.

Discrepancies between the expectations of survey participants and government forecasts also concern investment path. While EFC experts predict that this year investments will rebound and their growth rate will exceed 8%, this growth rate should fall significantly in the following years.

According to the EFC experts' forecasts, in 2018 the deficit of the public finance is expected to remain below 1% of GDP, but this ratio is expected to deteriorate to 2.08% of GDP by 2021. Causes for the unexpectedly good budget performance in 2018 are analysed by Ignacy Morawski (Morawski 2018). The first, there has been a significant improvement in the financial situation of the Social Security Fund owing to additional revenue resulting from the increase in employment and wages and also related to immigration. Social Security Fund revenues from this source have increased by around 1 percentage point of GDP over the last few years. The second, tax revenues have gone up, including in particular PIT, CIT and VAT as well as revenue from the new bank tax, with the total increase being estimated at around 1.7 percentage points of GDP. The third, wages in the general government sector have remained frozen, which has resulted in a drop in the ratio of wages in that sector to GDP from 10.4% to 10.2% over the last three years.

The views presented by the group of experts indicate that personal (household) consumption should remain an important driver of GDP growth, which will be supported by both low unemployment (3.5–3.9%) and fast growing wages (by 6–7% per year). Most economists agree, however, that consumption growth should not be expected to continue at the current rate and should drop to around 3% by 2021. Wage growth is also expected to slow down to around 5% by 2021.

[5] These assessments turned out to be consistent with the PMI (Purchasing Managers' Index) readings for the Polish industry, which are signalling the deepest slump since April 2013 (a drop to 47.6 points in December 2018), www.markiteconomics.com, 2 January 2019.

Moreover, the experts predict that export growth will decline from 5.2% in 2018 to 3.5% in 2021; import growth should similarly decelerate from 6.6% in 2018 to 3.7% in 2021. However, the experts' opinions diverge to a considerable extent in this respect.

Annual average inflation (CPI) will accelerate, but this uptick does not yet pose a significant threat to the NBP's inflation target within the next three years.

The consensus is that the PLN/EUR and PLN/USD exchange rates will be stable, which will provide a significant stimulus for export growth.

EFC experts forecast a gradual increase in the NBP benchmark rate and also in interbank market rates (WIBOR). It should be noted that this will entail an increase in the price of credit while the leverage used by enterprises to finance their operations is increasing.

Synthetic results of point macroeconomic forecasts are shown in Table 1.

Table 1. Basic macroeconomic indicators – EFC experts' forecasts

Indicator	Metric	017	SURVEY RESULTS			
			2018F	2019F	2020F	2021F
GDP (YoY; %)	**mean**	4.8	4.98	3.70	3.11	2.78
	standard deviation		0.10	0.20	0.31	0.39
Domestic demand (YoY; %)	**mean**	4.9	5.53	4.28	3.30	2.82
	standard deviation		0.37	0.38	0.44	0.52
Individual consumption (YoY; %)	**mean**	4.9	4.64	3.96	3.33	2.98
	standard deviation		0.10	0.27	0.37	0.48
Gross fixed capital formation (YoY; %)	**mean**	3.9	8.01	6.41	3.71	2.12
	standard deviation		0.85	1.14	2.00	2.63
Public finance sector result, EU methodology (% GDP)	**mean**	-1.4	-0.80	-1.39	-1.83	-2.08
	standard deviation		0.35	0.38	0.65	0.80
Unemployment rate (annual average, BAEL; %)	**mean**	4.5	3.69	3.58	3.66	3.89
	standard deviation		0.20	0.35	0.50	0.87
Gross wages in national economy (YoY; %)	**mean**	5.4	7.24	6.73	5.60	4.93
	standard deviation		0.27	0.53	0.63	1.05

Table 1 – continuation

Indicator	Metric	017	SURVEY RESULTS			
			2018F	2019F	2020F	2021F
Export (constant prices; YoY; %)	**mean**	9.5	5.16	4.11	4.43	3.51
	standard deviation		0.73	1.10	1.14	2.63
Import (constant prices; YoY; %)	**mean**	10.0	6.57	5.82	5.15	3.70
	standard deviation		0.99	1.74	1.35	2.54
Inflation (CPI; annual average; %)	**mean**	2	1.68	2.18	2.63	2.49
	standard deviation		0.06	0.40	0.35	0.42
Base inflation excl. food and energy prices (%)	**mean**	0.7	0.78	1.59	2.24	2.29
	standard deviation		0.08	0.35	0.46	0.50
EUR/PLN (annual average)	**mean**	4.26	4.27	4.28	4.28	4.26
	standard deviation		0.01	0.03	0.06	0.08
USD/PLN (annual average)	**mean**	3.78	3.64	3.70	3.62	3.62
	standard deviation		0.05	0.11	0.24	0.28
Reference rate (end of year; %)	**mean**	1.5	1.50	1.67	2.23	2.56
	standard deviation		0.00	0.28	0.58	0.88
3M WIBOR (annual average; %)	**mean**	1.73	1.71	1.73	1.99	2.29
	standard deviation		0.01	0.02	0.23	0.44
Yield on 5Y bonds (annual average; %)	**mean**	2.78	2.51	2.67	3.00	3.12
	standard deviation		0.02	0.12	0.35	0.43

Source: Own research: EFC experts' consensus results.

2.2. Threats

In addition to macroeconomic forecasts, the survey conducted among European Financial Congress experts has made it possible to create a map of threats to the business climate in Poland until 2021. To this end, survey participants divided 100 points among selected threats and assigned subjective likelihood assessments to each of them. This has made it possible to prioritise threats to sustainable development.

Among those threats, the most important one appears to be an economic downturn suffered by Poland's main trading partners, primarily in the Eurozone, which is considered the most significant external threat to the sustainable development of the Polish economy, since external demand is a key factor in Poland's economic growth. This role is indicated, among other things, by the fact that the growth in so-called value added export has accounted for the majority of Poland's GDP growth in the 21st century. In this context, most survey participants have underlined their concerns about the impact of increasing protectionism and restrictions on international trade.

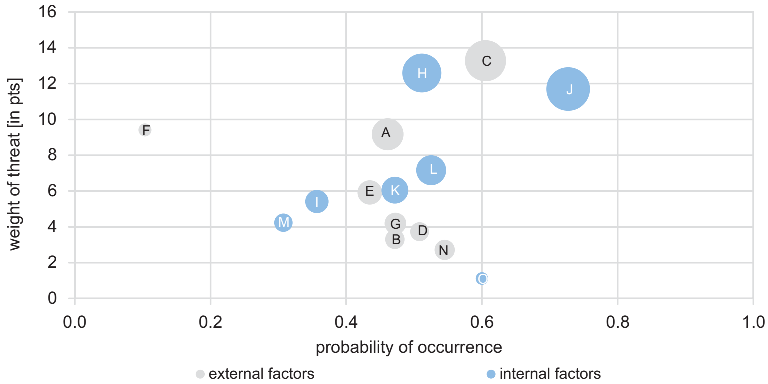
On the other hand, the supply barrier in the labour market, and in particular the limited availability of skilled workers, was cited as the major internal threat to the Polish business climate. This is related both to unfavourable demographic conditions and flawed immigration policies. The influx of workers from Eastern European countries, and in particular from Ukraine, is insufficient to fill the gap in the labour market; moreover, this trend is unstable and may prove short-lived. This exacerbates the risk of a rapid increase in labour costs, which may in turn significantly hurt the competitiveness of Polish enterprises, including of their exports. Although the introduction of robots or intelligent automation will compensate for the shortage of workers in some areas, in the coming years this will mainly apply to standard and repetitive activities while skilled workers are, and still will be, needed.

Given the very low investment rate in Poland and the entirely unsatisfactory increase in gross fixed capital formation, another issue of concern is the fact that over 80 percent of EFC experts see the risk of slowdown in private investment.

Another challenge is the risk that macroeconomic imbalances will become more pronounced, in particular in the public finance. Economists stress the need to reduce the structural deficit of the public finance as well as debt, including to foreign creditors. This should enhance Poland's creditworthiness, and thus also the creditworthiness of other businesses, including banks, which could then be able to gain access to foreign capital on more attractive terms.

Survey results illustrating the importance of threats to Poland's sustainable economic development and the probability of their occurrence are synthesised in Figure 2.

Figure 2. Major threats to Poland's economics situation looking forward to 2021



* the size of the circle represents the sum of the products of factor weight multiplied by factor probability of occurrence as assigned by the experts

		Weight (1 means the highest weight)	Probability	Percentage of respondents
A	Protectionism and international trade restrictions	5		93%
B	Economic downturn in the USA			75%
C	Economic downturn suffered by Poland's main trading partners	1	0,61	86%
D	Economic downturn in China			68%
E	Italian crisis and new disruptions in markets leading to debt crisis in the Eurozone			75%
F	Disintegration of the Eurozone	4		64%
G	Correction and increase in volatility in global financial markets			71%
H	Excessive growth of imbalances resulting from procyclical fiscal and monetary policy in Poland	2		93%
I	Reduction of EU funding for Poland resulting from the EU rule-of-law procedure			71%
J	Supply barrier in the labour market	3	0,73	86%
K	Sustained wage growth exceeding growth of labour productivity			79%
L	Economic policy uncertainty resulting in private investment slowdown		0,53	82%
M	Political destabilization risk			71%
N	Other external factors		0,55	32%
O	Other internal factors		0,60	18%

Source: Own research: EFC experts' consensus results.

2.3. Threats to the stability of the financial system until 2021

The stability of the financial system is a prerequisite for the proper development of that system and for the fulfilment of its essential functions. The importance of financial stability has been underscored by the global financial crisis whose painful consequences have been felt not just by financial institutions, but also by the real economy.

In literature, the stability of the financial system is framed in various ways. It can be defined in monetary terms (Allen, Wood 2006; Schwartz 1998), in functional terms (Mishkin 1999), as the undisrupted functioning of the financial sector, in broad functional terms (Ferguson 2003; Crockett 2000), as the absence of financial instability, or in systemic terms (De Bandt, Hartmann 2000): defined as the absence of systemic risk.

For the purposes of this article, financial stability is defined in the same manner as in the *Raport o stabilności systemu finansowego* (Raport o stabilności... [Report on the Stability...] 2018). According to that report, "stability of the financial system is the state in which this system performs its functions in an uninterrupted and efficient manner even in the event of unexpected and unfavourable disturbances on a significant scale whose occurrence is improbable. Maintaining the stability of the financial system requires the monitoring of systemic risks emerging in that system itself or in its environment as well as the taking of measures to eliminate or mitigate these risks (Raport o stabilności... [Report on the Stability...] 2018)." This definition combines the functional and systemic approaches to defining financial stability.

Many international organisations study issues related to ensuring the stability of the financial system.

The monitoring of threats conducted by the European Central Bank (ECB) by means of the Financial Stability Review (FSR) (*Financial Stability Review* 2018) focuses on identifying and prioritising the main sources of systemic risk and vulnerabilities to potential risks exhibited by the financial system of the Eurozone. The ECB defines financial stability as a condition in which the financial system is able to withstand shocks and financial imbalances.

The Joint Committee of the European Supervisory Authorities publishes periodical updates on key threats to the stability of the European financial sector in an uncertain political and economic environment (*Autumn 2017 Report on risks...* 2017).

On the other hand, the IMF assesses the key threats faced by the global financial system in its Global Financial Stability Report (GFSR) (*Global Financial Stability Report...* 2018). The presentation of threats in the report is aimed at preventing crises by defining strategies which can mitigate systemic risks and thus contribute to ensuring the global financial stability and sustainable growth of IMF Member States.

With respect to the stability of the financial system, the key determinants of a stable market should also be emphasised.[6]

In our survey, EFC experts discuss financial market development prospects until 2021, presenting, among other things, forecasts for the deposit and credit market and identifying key threats to the stability of the Polish financial system along with the probability of such threats being realised.

After 2018, EFC experts expect a slowdown in the growth of outstanding amounts from lending to non-financial corporations – from 6.7% (2018) to 4.8% (2021), with a similar deceleration expected for deposits – from 6.8% to 5.9%.

The greatest changes should take place in the consumer credit segment. EFC forecasts indicate the possibility of a significant decrease in the development rate of the consumer finance market – from 8.1% in 2018 to 4.7% in 2021; this is related to considerable market saturation and the risk of "overleveraging" households, which is pointed out increasingly often.

Until 2021, relatively stable growth of the deposit base, at the level of ca. 6–7% in the household sector and 5.5–6.5% in the corporate sector, should be expected.

EFC experts considered the excessive share of the state in the banking sector to be the most important long-term threat to the proper functioning of the financial market (probability = 56.4%, weight of threat = 9.5 points). Their concerns are related, among other things, to the activities undertaken by banks with a majority stake held by the state treasury, as these activities are motivated by non-market (political) factors, which may result in the inefficient allocation of funds, lending to projects according to political criteria and a deterioration of management quality at state-controlled banks.

The second significant risk to the stability of the financial system identified in the survey was the possible loss of credibility of financial safety net institutions (probability = 53.0%, weight of threat = 8.9 points).

EFC experts considered the following to be factors with the greatest potential impact on the proper development of the financial market in Poland:

- The collapse of a medium-sized bank (weight of threat = 11.8 points; probability = 24.9%);
- A banking/financial crisis in the European Union (weight of threat = 10.6 points; probability = 27.6%);

[6] B. Pietrzak indicates three groups of factors, which are also taken into account in the "Maps of threats to policy" survey:
- Macroeconomic factors, which include, *inter alia*, stabilising economic policy (including structural, fiscal and monetary policy), and also microeconomic policy resulting from the level of development of individual financial system segments;
- Endogenous institutional factors, which are related to market risk and financial infrastructure, and exogenous factors related to systemic (macroeconomic) risk and natural or political events;
- Domestic events and those which take place in global markets.

(Pietrzak 2017).

- Statutory and compulsory restructuring of foreign currency loans (weight of threat = 10.5 points; probability = 17.2%);
- A rapid and significant interest rate increase leading to an increase in the costs incurred by borrowers (weight of threat = 9.25 points; probability = 28.6%).

Table 2. Selected forecasts for the deposit and credit market until 2021

Indicator	Metric	2017	SURVEY RESULTS			
			2018F	2019F	2020F	2021F
Loans to the non-financial sector – outstanding amounts (YoY; %)	mean	3.2	6.71	6.04	5.33	4.77
	min		6.00	4.90	4.70	3.00
	max		7.40	7.50	6.10	6.00
Deposits from the non--financial sector – outstanding amounts (YoY; %)	mean	3.8	6.81	6.36	6.01	5.88
	min		5.70	5.70	5.10	5.60
	max		8.30	7.80	6.90	6.10
Consumer credit – outstanding amounts (YoY; %)	mean	6.9	8.05	7.26	6.09	4.67
	min		6.00	5.80	4.80	2.40
	max		9.90	9.00	7.50	6.40
Lending for house purchase – outstanding amounts (YoY; %)	mean	-1.5	5.44	4.35	4.16	3.88
	min		3.10	2.90	2.70	2.50
	max		7.10	7.10	5.00	5.40
Loans to non-financial corporations – outstanding amounts (YoY; %)	mean	5.9	7.43	6.99	5.64	5.38
	min		6.00	5.10	4.50	2.20
	max		8.90	8.80	7.10	7.50
Deposits from households – outstanding amounts (YoY; %)	mean	4.2	7.24	6.50	6.49	6.25
	min		5.70	5.50	5.60	5.10
	max		8.50	7.00	7.70	7.70
Deposits from non-financial corporations – outstanding amounts (YoY; %)	mean	2.4	6.05	6.46	5.73	5.73
	min		3.80	5.00	4.90	4.70
	max		8.90	10.40	9.60	8.70

Source: Own research: EFC experts' consensus results.

Another group are factors with a relatively low impact on the stability of the financial system over the next three years. However, experts point to the high probability of the following threats occurring. These are:

- Poor supervision of the shadow banking sector (probability = 50.3%, weight of threat = 3.1 points);
- Collapses and restructuring of the largest credit unions (SKOK) (probability = 50.0%, weight of threat = 4.1 points);
- Collapses of cooperative banks (probability = 43.9%, weight of threat = 5.5 points).

Among other threats, the following are also worth mentioning: the risk of the banks' reduced resilience to possible turbulence in the financial markets due to heavier regulatory and fiscal burdens (probability = 38.6%, weight of threat = 4.5 points) and the deterioration of the quality of the credit portfolio resulting from the decreasing profitability of companies operating under high cost pressures (probability = 38.4%, weight of threat = 4.5 points).

Weights of individual threats to the stability of the Polish financial system and the probabilities of their occurrence are synthesised in Figure 3.

The results of the current survey (the second edition) are slightly different from the views presented by the group of experts in June 2018 (the first edition).

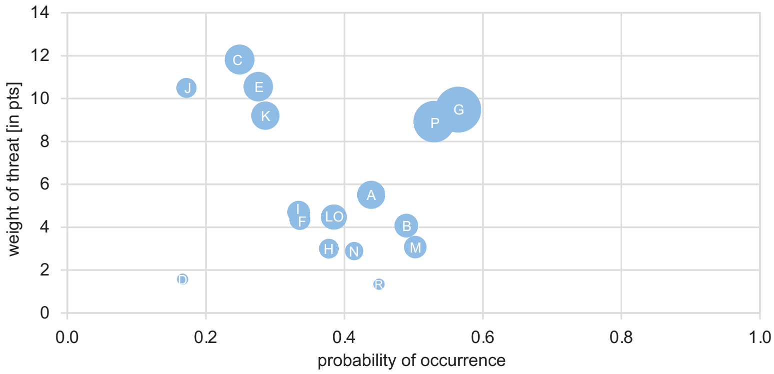
The factors which have higher probabilities of occurrence assigned in this edition than in the former one include primarily:

- The risk of an increase in interest rates (factor K; +6.9 percentage points);
- The deterioration of the quality of the credit portfolio (factor L; +5.9 percentage points);
- The development and aggressive marketing of toxic financial instruments – unethical activities verging on moral hazard (factor H, +5.61).

EFC experts have also pointed to a higher probability of the threat related to the banks' lower resilience to possible turbulence due to heavier regulatory burdens (factor O; +5.1 percentage points) and the possible collapse of a medium-sized bank, resulting in the destabilisation of the banking system in Poland (factor C; +4.9 percentage points).

On the other hand, in the December edition of the survey, the probability of statutory and compulsory restructuring of foreign currency loans was reduced (factor J; -16.4 percentage points) similarly as the probability of adverse effects related to the structural mismatch between assets and liabilities at banks (factor F; -14.8 percentage points).

Figure 3. Major threats to the stability of the Polish financial system in 2018–2021



* the size of the circle represents the sum of the products of factor weight multiplied by factor probability of occurrence as assigned by the experts

		Weight (1 means the highest weight)	Probability	Percentage of respondents
A	Collapses of cooperative banks			72%
B	Collapses and restructuring of the largest credit unions (SKOK)		0,49	72%
C	Collapse of a medium-sized bank	1		79%
D	Insufficient integration of the Polish financial sector with financial systems of the Eurozone			45%
E	Banking/financial crisis in the European Union	2		72%
F	Structural mismatch of assets and liabilities of domestic banks			62%
G	Excessive share of the State in the banking sector	4	0,56	69%
H	Aggressive placement on the market of toxic financial instruments			62%
I	Problems of individuals holding mortgages denominated in foreign currencies in the wake of the weakening of the Polish zloty			69%
J	Statutory and compulsory restructuring of foreign currency loans	3		79%
K	Rapid and significant interest rate increase leading to increase in costs incurred by borrowers	5		83%
L	Deterioration of the quality of credit portfolio			62%
M	Poor supervision of the shadow banking sector		0,50	55%
N	Speculative/significant increase in real property prices			55%
O	Lower resistance of banks to possible turbulence due to heavier regulatory and fiscal burdens			66%
P	Loss of credibility of financial safety net institutions		0,53	76%
R	Other factors		0,45	10%

Source: Own research: EFC experts' consensus results.

3. Key recommended measures for Poland's economic policy until 2021

On the basis of macroeconomic forecasts and the threats identified, recommendations have been formulated concerning the most important measures in the area of economic policy in Poland until 2021.

I. Overcome the barrier of an increasing shortage of labour resources

EFC experts agree that the most important and most urgent objective for the implementation of Poland's sustainable economic development concept is to overcome the barrier of an increasing shortage of labour resources.

In order to overcome the barrier related to the shortage of labour resources, the following measures need to be taken:

1. Improving the society's labour-market participation, in particular through:
   - Restoring and developing vocational education and implementing an education model which is based on the analysis of market needs;
   - Stimulating the labour market activation of the elderly or increasing effective retirement age;
   - Stimulating the labour-market activation of women and young people;
   - Making teleworking more attractive;
   - Implementing measures to increase the mobility of labour supply;
   - Shifting labour resources toward the most productive applications.
2. Developing a coherent long-term immigration policy, in particular by fully opening the borders to the inflow of foreign workers (mostly from Ukraine and Belarus), and at the same time taking comprehensive measures to persuade such people to settle in Poland permanently together with their families. This should be made particularly easy for highly skilled workers. First and foremost, this means that solutions should be implemented as a matter of urgency in order to facilitate legal employment of foreign nationals and their acquisition of the right of permanent residence. An active industrial policy should be pursued, in particular by encouraging the immigration of suitably skilled labour and reducing oligopolistic pressures in the labour market (the strength of trade unions).
3. Taking measures to further increase labour productivity.
4. Striving to increase the employment rate and creating conditions for Poles, who have emigrated for economic reasons, to return.

II. Improve regulatory and legal stability

A dominant view among EFC experts is that improving the regulatory and legal stability should be regarded as a priority objective for economic policy which would promote an increase in private investment. This necessarily involves reducing the level of legal and institutional uncertainty, adopting stable rules and ensuring predictability of the regulatory environment. Reducing legal and fiscal uncertainty is a necessary condition for improving the investment climate.

In order to improve regulatory and legal stability and ensure the rule of law, the following measures must be taken, *inter alia*:

1. Step-by-step measures simplifying the fiscal and parafiscal systems, eliminating unjustified disparities (including the equalisation of contributions to KRUS [Farmers' Social Insurance Fund] and ZUS [Social Insurance Institution], tax burdens and exemptions across social groups, retirement privileges, etc.).
2. Pursuing a sustainable agreement with the European Commission on the issues related to rule of law and strengthening partnerships within the EU to counteract US protectionist tendencies.
3. Ensuring independent and professional micro-prudential supervision of the financial market.
4. Improving the transparency, stability and predictability of the regulatory environment in order to mitigate risks and to make private investment more attractive.

Some experts indicate that it would be reasonable to undertake measures and reforms to complete the euro project in order to increase the monetary integration. While the decision concerning Poland's readiness to join the Eurozone will be based mostly on political motivation, it will certainly improve the level of security, which is a prerequisite for sustainable long-term economic growth. Therefore, preparations should be started to end the euro derogation.

III. Reduce structural imbalances in public finances

Macroeconomists among EFC experts also believe that a public finance reform, in particular addressing the structural imbalance, is one of the key economic policy objectives for the next three-year period.

A reform of public finance aimed at reducing the structural deficit should have the following characteristics:

1. Be anti-cyclical.
   The current state budget was designed with the assumption that the economic upturn would not deteriorate, in other words that the reasonable economic growth, low unemployment, favourable exchange rate situation, increase in revenues and high EU subsidies would continue. Unfortunately, as fluctuations are unavoidable in a market economy, now it has become necessary to reduce the structural deficit in public finance by at least 1% of GDP and to create fiscal buffers before a downturn comes. Indeed, the recession period will allow us no means to stimulate the economic growth, whether by interest-rate cuts or by higher public spending.
2. Assume a tighter monetary policy.
3. Reduce social spending from the state budget.

IV. Support pro-innovation investments

Many among EFC experts argue that support for innovative investment should be ensured in the economy and in public administration, mainly by improving the regulatory environment for business in a way which favours private investment and innovation projects (e.g. an efficient patent box). In the context of expected reduction in cohesion funds for Poland, the experts recommend the implementation of innovative instruments for financing of public and private investment, which are provided for under what is known as the Juncker Plan, and the European Investment Bank's project bonds. What they are critical about is, in turn, the fact that the resources of the Polish Development Fund are used for the nationalisation and renationalisation of the economy instead of supporting innovative and export-oriented measures.

Innovation in public administration should be preceded by diagnosing which areas would generate the highest savings for the state budget and advantages for the citizens following the introduction of state-of-the-art IT technologies (e.g. in the form of clear regulations and fast and easy online handling of cases). This would provide a basis for step-by-step implementation of such solutions, in order to ensure that retiring officials are replaced by processes and procedures (e.g. blockchain-implemented ones) rather than people. On the one hand, this would automate many simple, repeatable office activities, and on the other hand, savings would be generated in the state budget. The experience of Estonia (but also of other countries) may provide inspiration in this field.

V. Stimulate an increase in national savings

EFC experts take the view that measures to increase savings in the economy should be taken as soon as practicable. Clearly, lower domestic savings and the decline in investment funding from foreign savings are among systemic limitations for durable and sustainable economic development. An increase in the savings rate requires improving the credibility of the institutional and regulatory environment, and especially enhancing confidence in the financial system.

VI. Revise the energy policy

Some EFC experts draw attention to the fact that energy security needs to be improved. They emphasise in particular the need to formalise the works on Poland's energy strategy and to increase significantly the support for renewable and prosumer energy. They also state that an exit strategy for coal should be developed.

VII. Revise HR policies at state-owned companies

Some EFC experts are concerned about the state-owned companies' HR policy, especially about political pressure on the companies' management. The current situation is destroying the value of these companies for private shareholders. While the effects of such policies are deferred, they are going to undermine the competitive position of key Polish corporations.

Summary

The EFC experts' consensus forecast presented in the article not only contains traditional macroeconomic forecasts for Poland but also leverages the experts' competence and knowledge in order to identify threats to sustainable economic development and financial system stability. The consensus forecast drawn up on the basis of the knowledge of our group of experts (and modified using the Delphi method) also includes estimates of the subjective probabilities of the threats identified. Additionally, it provides expert recommendations on how to avoid or mitigate the effects of the risks identified. The forecasts presented indicate the end of a favourable business climate, a deceleration in the economic growth rate and the worsening of problems related to labour shortages. Among the economic policy recommendations presented, measures aimed at enhancing the credibility of the financial safety net and at improving regulatory and legal stability should be stressed.

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